

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 DOE-15 SOE-02 STR-07
AGRE-00 /117 W

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R 120350Z JUN 78

FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 9427
INFO AMEMBASSY BANGKOK
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY SINGAPORE

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E.O. 11652: N/A

TAGS: ECIN, ASEAN, ID

SUBJECT: ASEAN ECONOMIC MINISTERS MEETING

REF: JAKARTA 7523

1. SUMMARY: FURTHER CONVERSATIONS HERE INDICATE THAT DISCUSSIONS OF THE INDUSTRIAL PROJECTS AND OF THE GUIDELINES FOR INDUSTRIAL COMPLEMENTATION DOMINATED AND WERE THE MOST IMPORTANT ASPECTS OF THE JUNE 5-6 ECONOMIC MINISTERS MEETING. DISCUSSIONS IN BOTH AREAS WERE CONTROVERSIAL AND IN EACH CASE, ACCORDING TO RELIABLE SOURCES HERE, SINGAPORE WAS IN THE MIDDLE OF THE CONTROVERSY. THE EXCEPTION GRANTED SINGAPORE FOR ONLY NOMINAL SHARE HOLDING FOR THE INDUSTRIAL PROJECTS IS A POTENTIALLY SIGNIFICANT PRECEDENT.

2. AS STATED IN THE PRESS RELEASE THERE WAS APPROVAL OF THE TEXT OF THE BASIC AGREEMENT ON ASEAN INDUSTRIAL PROJECTS
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WHICH LAYS OUT THE PRINCIPLES GOVERNING THEIR ESTABLISHMENT, EQUITY PARTICIPATION, FINANCING, MANAGEMENT, ENTITLEMENT OF PREFERENTIAL TRADING, HOST COUNTRY INCENTIVES AND PRICING. IT AND THE SUPPLEMENTARY AGREEMENTS FOR THE INDONESIAN AND MALAYSIAN PROJECTS WHICH ALSO WERE AGREED UPON ARE BEING FORWARDED TO THE FON MINS FOR SIGNATURE.
IN A PRESS CONFERENCE HERE SECRETARY

PATERNO SAID THE HOST COUNTRY WOULD HOLD 60 PERCENT OF EQUITY WHILE DISTRIBUTION OF THE OTHER 40 PERCENT WOULD BE SUBJECT TO DISCUSSION. THIS OF COURSE IS A DEVIATION FROM THE PREVIOUS INTENTION OF SPLITTING THE 40 PERCENT EQUALLY AMONG THE 4 NON-HOST COUNTRIES.

3. THE DEVIATION BECAME NECESSARY WHEN SINGAPORE OBJECTED (ON A "TAKE IT OR LEAVE IT" BASIS ACCORDING TO SECRETARIAT OFFICIALS) TO TAKING A 10 PERCENT EQUITY SHARE IN THE OTHER FOUR PROJECTS; NOT SO MUCH BECAUSE IT DOES NOT WISH TO HOLD SHARES IN AGRICULTURAL PROJECTS, AS REPORTED REFTTEL, BUT BECAUSE SINGAPORE VIEWS AS INEQUITABLE A REQUIREMENT FOR IT TO HOLD 10 PERCENT IN EACH OF FOUR PROJECTS WHEN IT HAS NO PROJECT IN WHICH THE OTHER FOUR CAN RECIPROCATE. GOS EMBOFF HERE CONFIRMED THAT THE MINISTERS DID NOT DISCUSS SINGAPORE'S PROJECT AND ADDED THAT, IN CONTRAST TO PRESS REPORTS, THE GOS HAD NOT PRESENTED A PESSIMISTIC ASSESSMENT, OR INDEED ANY ASSESSMENT, OF THE SCHEME'S FEASIBILITY. HE SAID SUCH A PRESENTATION WAS NOT NECESSARY BECAUSE IT IS WELL KNOWN THAT THE PROJECT IS NOT VIABLE DUE TO THE RESTRICTIONS PLACED ON IT BY OTHER COUNTRIES, PARTICULARLY INDONESIA. THUS APPARENTLY WITHOUT REFERENCE TO THE DIESEL PROJECT THE GOS SIMPLY STATED THAT IT HAD NO PROJECT, AND UNDER THOSE CIRCUMSTANCES DID NOT WISH TO PARTICIPATE FULLY IN THE OTHER FOUR. (ACCORDING TO SECRETARIAT OFFICIAL USE

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SECRETARIAT'S CASTRO, GOS ECONOMIC DEVELOPMENT BOARD CHAIRMAN NGIEM DID STATE DURING A WORKING GROUP SESSION THAT, "WE CAN'T FIND A NEW PROJECT".) THE OTHER COUNTRIES, LED BY PATERNO, TRIED STRENUOUSLY BUT UNSUCCESSFULLY TO DISSUADE SINGAPORE. AS RESULT THERE HAS BEEN AGREEMENT THAT SINGAPORE'S EQUITY SHARE OF THE INDUSTRIAL PROJECTS OF THE OTHER FOUR SHALL BE NOMINAL (DEFINED AS AT LEAST 1 PERCENT) "UNTIL SINGAPORE HAS A VIABLE PROJECT OF ITS OWN." ASKED IF THE GOS WOULD TAKE UP THE FULL 10 PERCENT OF THE INITIAL FOUR OTHER INDUSTRIAL PROJECTS ONCE IT HAD ITS OWN PROJECT OR ONLY DO SO ON A SECOND ROUND OF PROJECTS, GOS EMBOFF SAID THE QUESTION WAS ACADEMIC. HE SAID HIS GOVERNMENT NOW FELT THAT IT WOULD "PROBABLY NEVER" HAVE AN ASEAN INDUSTRIAL PROJECT BECAUSE INDONESIA WOULD NEVER OPEN UP THE MARKET TO IT. HE SAID THE GOS HAD PROPOSED AT LEAST ONE OTHER INDUSTRIAL PROJECT (COLOR T.V. TUBES), BUT THAT IT ALSO HAD BEEN SHOT DOWN. (WE WOULD APPRECIATE EMBASSY SINGAPORE COMMENT ON WHETHER OR NOT EMBOFF HAS ACCURATELY REFLECTED GOS OPINION.)

4. THE MINISTERS DID NOT APPROVE THE GUIDELINES ON INDUSTRIAL COMPLEMENTATION, PRIMARILY BECAUSE OF SINGA-

PORREAN OPPOSITION TO THE REQUIREMENTS IN THEM FOR MAJORITY ASEAN OWNERSHIP AND FORMONOPOLY OF PRODUCTION. IN THIS CASE THERE AGAIN WAS DEBATE BUT IN CONTRAST TO THAT CONCERNING THE INDUSTRIAL PROJECTS IT REPORTEDLY WAS NOT HEATED. THE GOS ARGUED SUCCESSFULLY THAT A TRIAL RUN FOR THE DRAFT GUIDELINES WAS NECESSARY BEFORE ADOPTING THEM OFFICIALLY. GOS EMBOFF ADMITTED TO THE POSSIBILITY THAT THE GUIDELINES WOULD EVENTUALLY BE ACCEPTED BY ASEAN BUT SAID IT WOULD BE EXTREMELY UNLIKELY THAT HIS GOVERNMENT WOULD GO ALONG. THUS ANOTHER "EXCEPTION" FOR SINGAPORE WOULD BE IN ORDER.

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5. WHILE THE INCREASE FROM 50 TO 100 OFFERS PER NEGOTIATING ROUND FOR THE PREFERENTIAL TRADING AGREEMENT WAS WELCOMED, NO ONE HERE FEELS IT HAS PARTICULAR SIGNIFICANCE. INDONESIA FORMERLY RESISTED TARIFF CUTTING IN ALMOST ANY SIZE, SHAPE OR FORM. THE GOI'S INCREASING INCLINATION TO GO ALONG WITH TARIFF CUTS IS BASED UPON ITS OBSERVATION THAT THE SMALL SIZE OF THE CUTS AND THE RELATIVE INSIGNIFICANCE OF THE PRODUCTS HOLD LITTLE POTENTIAL FOR DAMAGING LOCAL INDUSTRY. AGREEMENT WAS REACHED BY THE ECON MONISTERS THAT TRADE PREFERENCES WILL HENCE FORTH BE EXCHANGED ON THE BASIS OF THE BTN 7-DIGIT CLASSIFICATION, THUS ALLOWING GREAT PRODUCT SPECIFICITY, AS OPPOSED TO MORE SWEEPING CUTS.

6. THERE DEVELOPMENTS HAVE TOUCHED OFF A LIVELY DEBATE IN JAKARTA. MOST OBSERVERS AGREE THAT IN ALLOWING SINGAPORE TO HOLD ONLY A TOKEN SHARE OF THE OTHER INDUSTRIAL PROJECTS, THE ECONOMIC MINISTERS HAVE SET A PRECEDENT. LIMITED OFFICIAL USE

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THERE IS LESS UNANIMITY ON WHETHER OR NOT THE PRECEDENT IS FAVORABLE. SOME SEE A POTENTIAL THREAT TO ASEAN UNITY. THE MAJORITY, HOWEVER, TAKES THE VIEW THAT THIS IS A HEALTHY, PERHAPS INEVITABLE, RECOGNITION OF THE DIFFERENT NATURE OF SINGAPORE'S ECONOMY. SOME SECRETARIAT OFFICIALS SEE AN EMERGING AWARENESS THAT SINGAPORE'S BASICALLY TRADE-ORIENTED ECONOMY IS DISTINCT AND MUST BE ACCOMMODATED. ONE WENT SO FAR AS TO SAY THAT WHILE CONSENSUS MUST STILL BE THE RULE, EQUAL PARTICIPATION MAY NO LONGER BE.

7. COMMENT: WHILE THIS DECISION HAS UNDOUBTED IMPORTANCE, IT IS TOO SOON TO KNOW IF ANYTHING OF A REALLY PRECEDENTIAL NATURE HAS TAKEN PLACE. INDIVIDUAL ASEAN MEMBERS HAVE NOT HESITATED IN THE PAST TO ACT WHEN THEY FELT THEIR INTERESTS THREATENED AND THIS MAY BE BUT ANOTHER EXAMPLE OF LOOKING OUT FOR ONESELF. HOWEVER, PAST ACTIONS--OPPOSITION TO THE DIESEL PROJECT, INDONESIAN RELUCTANCE TO PUSH TARIFF CUTTING--HAVE OFTEN BEEN UNOFFICIAL, WHILE THIS EXAMPLE OF UNWILLINGNESS TO GO ALONG WITH THE MAJORITY NOW HAS AN OFFICIAL STAMP ON IT. FOR THOSE CONCERNED PRIMARILY WITH THE APPEARANCE OF UNITY, THIS DEVELOPMENT MAY BE TROUBLING. HOWEVER, FRANK RECOGNITION OF THE DIFFERENCES WITHIN ASEAN AND ATTEMPTS TO DEAL WITH RATHER THAN TO PAPER OVER THEM, SHOULD IN THE LONG RUN CONTRIBUTE POSITIVELY TO THE STRENGTH AND RESILIENCE OF THE ORGANIZATION.

8. SEPTTEL ON US-ASEAN DIALOGUE FOLLOWS. MASTERS

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